THE WALL STREET TRANSCRIPT For complete index to products use TWST ON
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Chief Executives International Journal

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TWST Names Geier Best Chief Executive Advertising Industry

The Wall Street Transcript names Philip H. Geier Jr., The Interpublic Group of Companies Inc., for Gold Award, Advertising Industry.

(FO018/00) THE WALL STREET TRANSCRIPT names Philip H. Geier, Jr., Chairman and Chief Executive Officer of The Interpublic Group of Companies, Inc. as the gold award winner in the advertising industry for the past year.

Based on the Olympic tradition of gold, silver, and bronze awards, our silver honors go to Maurice and Charles Saatchi, Managing Directors of Saatchi & Saatchi Co. p.l.c. Our bronze award is taken by William E. Phillips, Chairman and Chief Executive Officer of The Ogilvy Group, Inc.

A special award for potential goes to Don Johnston, Chairman and Chief Executive Officer of JWT Group, Inc.

Geier takes our gold award because: As the head of the largest advertising agency system in the world, the CEO has astutely recognized the imperative of establishing clearly defined corporate objectives. The crucial elements in Geier's strategy include disciplined financial management, the development of a dominant international agency network, a selective acquisition/diversification program and a real commitment to shareholder value.

At the bottom line, Interpublic's profit performance has been

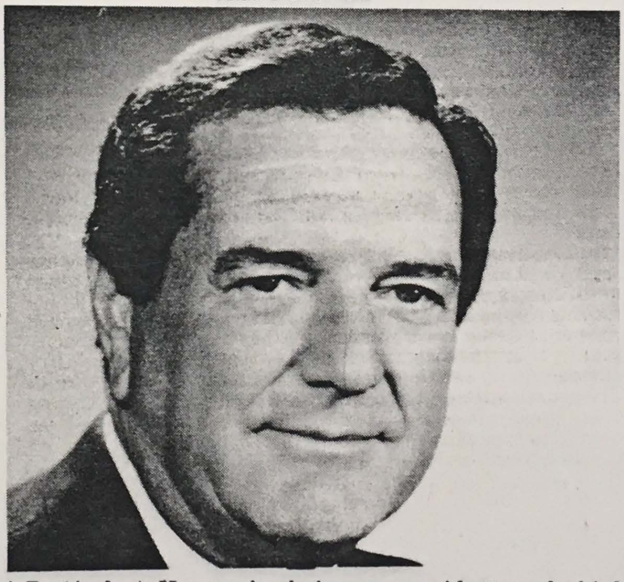
TWST CEO Forum: Imperial Oil Ltd.

A.R. Haynes - Chairman & Chief Executive Officer

PANELISTS:
Frederick P. Leuffer Jr. - Cyrus J. Lawrence, Inc.
William P. Magee - Nesbitt Thomson Bongard Inc.
William Randol - First Boston Corporation
Donald Textor - Goldman Sachs & Co.

Also Attending:
Lorne French - Investor Relations

A.R. HAYNES



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(FO011/00) TWST: What are some of the changes we can expect to see at Imperial Oil in reaction to the drop in oil prices?

Mr. Haynes: Well, it depends on how prolonged a period we can see this kind of erosion of oil prices. Quite frankly, we became somewhat concerned about the signs we saw back in December, and we started going through the same exercise we went through following the national energy program -- we started looking at

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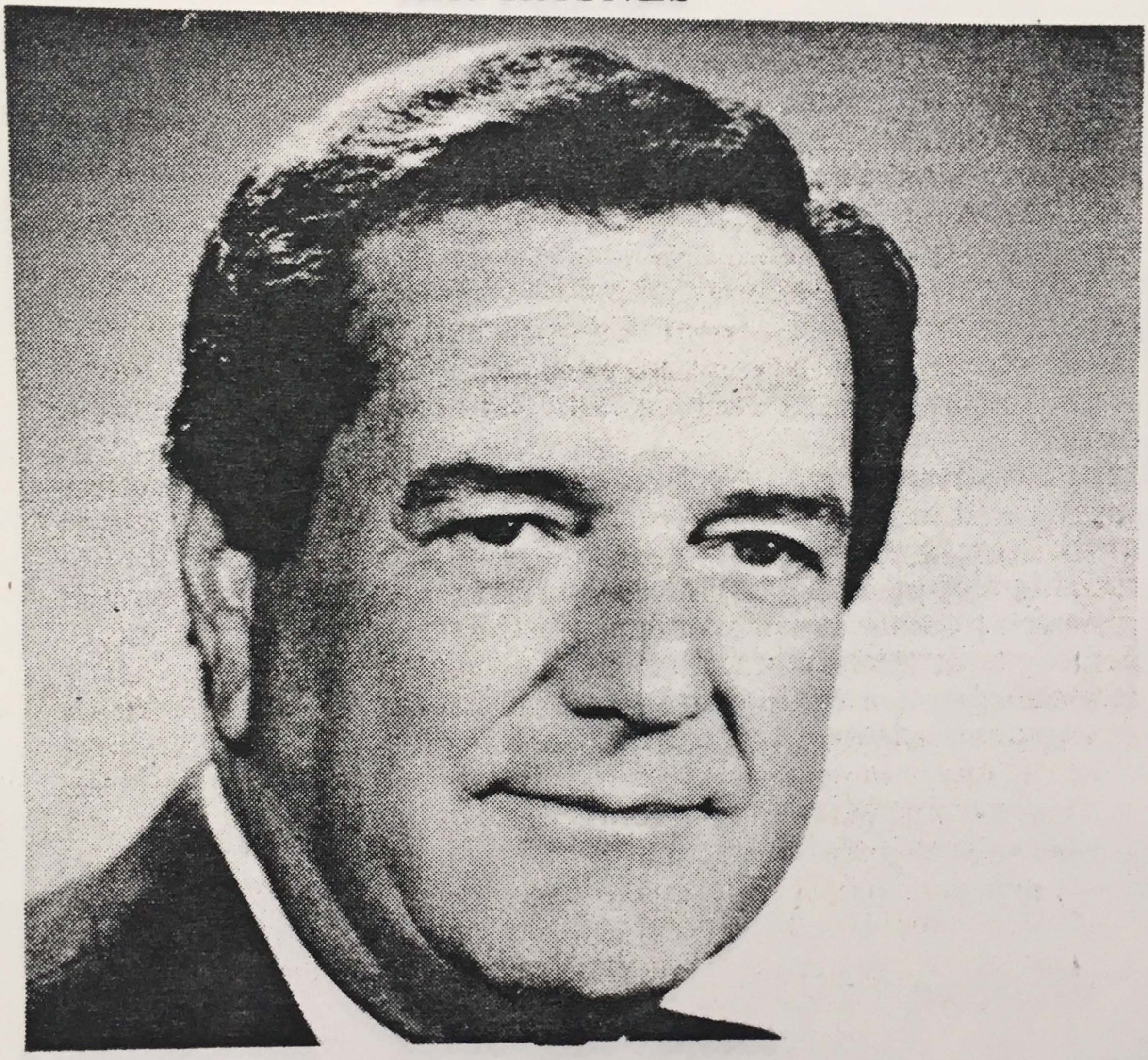

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So it's a matter of great concern to us, and we'll be playing this thing month by month, week by week. We're approving and allowing investments to go forward that are non-deferrable, and have a short-term favorable impact on earnings, but we're tending right now to set aside those that are less attractive and those that we can defer without real penalty. Of course we're concerned about it -- I know that everybody else it too.

TWST: Bill Magee?

Mr. Magee: By way of preamble, I should give credit where credit is due--to my partner Philippe Hervieu who has done the detailed number work on **Imperial** for Nesbitt Thomson in recent years. At the outset let me say that over the past five years **Imperial** has certainly been our prime oil recommendation, partly because of its ability to survive during the Energy Program days. Now of course, despite last year's improved produc-

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To get to the magnitude of the problem, just a simple question. *My reading of the price levels today suggests that* **Imperial** and other Canadian companies will have to lower their $30 posting by about $3 to come more in line with the West Texas spot levels. Am I correct?

Mr. Haynes: We're looking at two benchmark crudes: West Texas at Chicago is one, and Brent at Montreal is the other. Of course, there's a third benchmark -- that's Product Imports. Things change so quickly, though, that I'm really out of date, at this very moment, but last week for a while we were actually slightly below the market in Canada, and then one of our competitors posted a lower price. I think we were at that time almost at $22. U.S. Shell cme in at just under $22. We posted below that, and then the last posting I heard was around $19 U.S. I don't know exactly where it is now; I've been travelling around a little. But wherever it is, our objective is clearly to stay very close to those benchmark crudes. You just simply can't fine tune Canadian postings to get any kind of competitive advantage or any kind of extra profit margin by trying to be a little smarter, so what we're doing is trying to stick as close as we can to the market price.

TWST: Fred?

Mr. Leuffer: Why don't I pick up on that? **Imperial's** last release indicated a $5.55 (U.S.) per barrel drop in your posted price. It appears that the Canadian refiners have been more aggressive in reducing their posted prices than their U.S. coun-

(Continued on Page 80,964)

TWST CEO FORUM - IMPERIAL OIL

(Continued from Page 80,963)

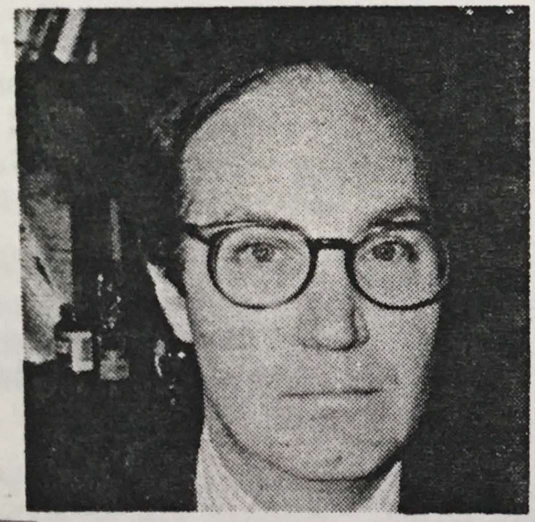
FREDERICK P. LEUFFER, JR.

Cyrus J. Lawrence, Inc.

WILLIAM G. MAGEE

Nesbitt Thomson Bongard Inc.

WILLIAM RANDOL



First Boston Corporation

DONALD TEXTOR

Goldman Sachs & Co.

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Mr. Haynes: Let me answer the second question first. The answer is no, we're not. We're trying to maintain a crude posting structure that's fully competitive on the other hand, we're trying hard not to give anything away to the downstream, because historically the downstream hasn't been a very good place to

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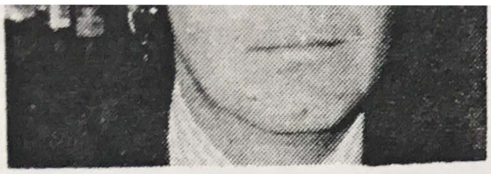

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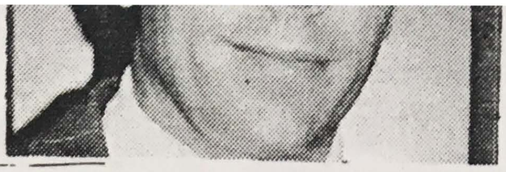

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Mr. Haynes: Let me answer the second question first. The answer is no, we're not. We're trying to maintain a crude posting structure that's fully competitive on the other hand, we're trying hard not to give anything away to the downstream, because historically the downstream hasn't been a very good place to count on on keeping very much. So we don't want to take anything away from the upstream by giving it to the downstream. It would have to be a substantial tax advantage before I'd be confident that any of it would stick.

I can't really add very much to what I said before on crude postings. I don't have a sheet with me, but we have a working paper that our people record daily spot shipment prices. Our intelligence system tells us pretty quickly what Brent is worth at Montreal.Then we take a look if there is some lag in the West Texas posting. But right now, frankly, I don't see this as an exercise that requires a lot of intellectual capacity. It's just a question of making sure that you're competitive. We don't want a downstream business to be fighting against a non competitive crude cost. On the other hand, we want to make sure that we don't give the downstream more than what the market says they deserve to have. That's the balance we're trying to achieve.

Mr. Leuffer: How would you explain the difference between the postings in the U.S. and Canada, with Canada being a little lower right now?

Mr. Haynes: I don't know. You can perhaps help me on the U.S. postings -- I don't know how realistic those postings are. I've always found a lot of artificiality in the U.S. crude pricing system, and it tends to be far less complex in Canada.

TWST: Bill Randol?

Mr. Randol: From our analysis, the U.S. postings tend to lag the market on the way down, and lead the market on the way up. And I think it's because the majors, while they have refining networks and worry about their fuel costs, also have substantial upstream assets. And there's always a tradeoff there, in handling prices, but they tend to want to protect the upstream assets.

TWST: Bill Randol, what question would you fire at Arden?

Mr. Randol: I'll ask the obvious one that I think is on all of our minds -- the economics of the Cold Lake project with a declining oil price scenario. What are we talking about, in terms of, per barrel margins or contribution of profits between now and 1990? I know this is the great project that separates **Imperial** from most of the other companies in terms of volume growth.

Mr. Haynes: I don't have in my head, Bill, the specific numbers that we have in our plan for earnings contribution. In any event, they'd be substantially lower if we projected today's

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Mr. Haynes: I don't have in my head, Bill, the specific numbers that we have in our plan for earnings contribution. In any event, they'd be substantially lower if we projected today's prices. I'm talking about equivalent posted prices in Alberta. It can stand $20 U.S. a barrel -- in fact it can stand more than that -- and still look extremely attractive. We are proceeding today as fast as we possibly can. We have six phases under way, four of which are now functioning and two of which are under construction, and the approval process is now underway, with the Alberta Government for phases 7 to 10. Indeed, we know we can put up to 16, maybe up to 20, phases in place for that deposit, and we'll do that as fast as we can.

Now, obviously there are some potential problems along the way, not least of which is market absorption. We recognize at some point we'll have to seriously consider upgrading; at $20 U.S. a barrel I don't think we could get any integrated economics out of a combination of upgrading and production. We see this ccurring some time in, say, the early 90's. If crude prices are a actor, it will come into play only at the time when we need igher production in order to benefit from the integrated eco- omics of the total systems -- production and upgrading. In the eantime, it's the "jewel in our crown," and it's about the last ing we would defer. So the magnitude of earnings, I think, will e directly related to the number of phases we have. The margin rrently is $10 plus, so there's a fair amount of leeway there.

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Let me expand on one other thing. In many respects, the next increment of upgrading heavy oil should really be a major expansion of Syncrude, because the infrastructure is in place. At $20 a barrel, there won't be any economics in Snycrude, I can tell you that. But we're getting all sorts of encouragement from both the political jurisdictions involved in Alberta and the Federal Government. At the prices before this deterioration took place, we thought we had pretty good economics for these projects; today we might agree to continue on with the engineering over the next couple of years in order to be ready in the event things look better. But that really, setting aside the price of crude oil, should be the next increment of upgrading that takes place--and we're very keen to do it. There are a lot of doubters about Syncrude, but last year our aftertax contribution from Syncrude was $100 million. Multiply that by 4, that's $400 million a year aftertax--that makes Syncrude one of the largest corporations in Canada. So at least for '85, it turned out to be a very, very good investment. So we'd like to see Syncrude progress and expand.

TWST: Don Textor?

Mr. Textor: Gulf and **Imperial** had been quite active in the north with some notable exploratory success. Recently Gulf appeared to make a successful confirmation of its Amauligak discovery. How much would it cost to build a big 18" to 24" line from Zama or Norman Wells up to the Canadian Beaufort? Based on a $28 to $30 (Canadian) oil price, how much proven reserves would you need to have before you initiate development?

Mr. Haynes: All I can do is give you some reference numbers. As you know, we put in a 12-inch line up to Norman Wells. The cost of that line was $360 million.

Mr. Textor: How far is Norman Wells from the Canadian

Beaufort?

Mr. Haynes: Norman Wells is just about 60 percent of the way from Alberta to the Beaufort Sea, 540 miles, so the rest of the way would be less than 400 miles.

Mr. Textor: So it cost you $350-400 million to build roughly 60 percent of the way up there.

Mr. Haynes: Yes. At $27-$28 oil we could see some justification for extension of the Normal Wells line. If that line gets 25,000 barrels a day from Norman Wells itself, you could almost double its output with a little added pumping capacity, and we could see some economics in about 25,000 barrel/day added production out of the Beaufort Sea, provided we could get our reserves up to about 300 million barrels. Our intent was to stand back after the end of this drilling season and see where we stood on this, because we're into that phase of our drilling program that's really the part that will determine whether or not we'll have reserves of some significance.

Mr. Textor: You're referring to the activity at Tuk?

Mr. Haynes: Yes. Of course, with the current price outlook, it's changed that whole scene. I can tell you, the way we see it now I think we'll finish this year's drilling program, and then sit and wait. We might do some delineation drilling. The real problem we're having, and that everybody else in this industry will have, is not just where the price will be; it's how long it will be there. I personally increasingly feel that it will be soft for some time. When I say soft, I mean anywhere between $20 and $27. There won't be any real growth in the price of crude oil beyond that range for at least six or seven years.

Mr. Textor: When you look back in a strategic sense, if **Gulf** has a major discovery that turns into a commercial standalone project, then **Imperial** essentially becomes a winner. If the Gulf discovery is commercial, given the fact that the line will be a common carrier, Gulf's success essentially makes your discoveries commercial.

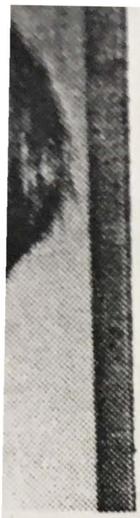
Mr. Haynes: No question about it. Because it makes economic a lot of fields that today are small contributors, but on an incremental basis they would make a lot of sense.

Mr. Textor: So the dozen or so discoveries that you've made up there today would be commercial?

Mr. Haynes: We're pulling for Gulf to have a big discovery, make no mistake about it.

TWST: Bill Magee?

Mr. Magee: Shifting from the upstream to the downstream,



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TWST: Bill Magee?

Mr. Magee: Shifting from the upstream to the downstream, what is your outlook for downstream margins given (a) the lower price situation and (b) Gulf Canada's shutdown of its Montreal refinery?

Mr. Haynes: For those two reasons there's a good chance margins will be impacted favorably. However, there's a rule of thumb that says when crude markets are sloppy, the downstream is sloppy. And if you couple that together with what's happened in energy conservation, the tremendous capacity overhang that still exists, and the fact that it's a silly industry that seems to price against the incremental barrel, it will take all the improvement that tightening the balances give. But as long as there's very much spare around, I'm not too optimistic we'll see returns that are really commensurate with the amount of capital invested in that part of the business. I've become a lot harder in my outlook toward the downstream,and until this past year, we've really not faced up to the downstream problems in our company. The reality is that there won't be a resumpiton in demand growth; there will be a real problem, not just in our company but the whole industry, of cost containment;and that is what we're looking at right now, frankly, is a reassessment of how we're approaching the downstream business. To put it another way, if we didn't have the organization in place today and were establishing one from square one, I think it would look different than the one we have in place today.

TWST: In what way?

Mr. Textor: A much leaner organization: it would look different geographically, it would look different regionally, the struc- ... markets we're

different than the one we have in place today.

TWST: In what way?

Mr. Textor: A much leaner organization: it would look different geographically, it would look different regionally, the structure of management would look different, the markets we're involved in would be more selective -- we wouldn't be quite as broadly based. I think there's a real opportunity for us now to do some reordering and substantially improve our downstream business through cost containment. If we can do that better than anybody else, then any pressure that moves margins up will certainly come to us in full measure. You'll be hearing some news about this in three or four months -- I don't want to say any more about it. But we really have to take a more fundamental look at that business.

TWST: Bill Magee, did you want to follow on?

Mr. Magee: Let's assume, going along with your thesis that things won't improve for a while -- certainly this poker game, and we could liken it to that, will not be resolved shortly. So, if we take the U.S. $20 price scenario over the next, say, two years, to what extent will **Imperial's** spending be trimmed, if any? You indicated earlier you were prioritizing. Would you just quantify that a little?

Mr. Haynes: We've just done some very simple arithmetic on this. In the year 1986, for example, if we were to cut our capital expenditure by 25 percent, we'd probably end up with a stronger cash balance than we currently have in the forecast, which says we probably wouldn't cut it by 25 percent. The greater concern to me is 1987, because in 1986 we get some benefit from the working capital reduction which, because of lower values of products, crude and accounts receivable, saves cash. The impact of $20 oil in 1987 is much more severe than in 1986. So the second year of your two-year scenario, Bill, will give me a much bigger problem than the first year.

I guess the only good thing about this whole thing is that we're getting some help from the reduction in P.G.R.T., so there's a bit coming our way. I think it's really important that I say this because one of our absolute commitments is that we may be goin[g] through another valley here, but we want to do it in such a wa[y] that when we start cutting out of it, we can get back into a stron[g] investment mode very quickly. In petroleum products we'll [b]... doing chemicals, and it will position us in such a way that wh[...] ...'ll be able to move very quickly to ta[...]

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Mr. Leuffer: Given somewhat more aggressive marketing policies and programs by some of the producers, have you changed your crude supply sources at all? Are you importing more of your crude supply? Are you taking any oil in by netback deals.?

Mr. Haynes: No, none at all. We're not large importers at this point. Since we closed our Montreal Refinery, our Dartmouth refinery is the only refinery that's on imports, and as far as I know we haven't changed our source -- it's still mainly running Venezuela crudes and some Mexican, and that's likely where it will stay. So we're only importing now 50-60 barrels a day. In the summertime, we ship some Canadian crude from Montreal, and at one time we were down to about 30,000 barrels a day of imported crude.

Mr. Leuffer: What's the average operating rate for your refineries in eastern Canada?

Mr. Haynes: 83 percent.

Mr. Leuffer: And with the shutdown of the Gulf Canada's Montreal refinery, operating rates should improve. And even given flat demand, we would see some improvement to the margins, one would normally think, in '86 over '85.

Mr. Haynes: The logic is there for it, as Bill Magee said a minute ago. I think the logic there is that margins in the east should improve -- no question about it. But it's an illogical business.

Mr. French: I think the point, Fred, is that as in 1985, when the circumstances were much the same as we've been talking about in the last minute or so, you got into a market share issue, as opposed to a supply/demand influence on market.

Mr. Leuffer: If I can just follow up about the downstream. Can you hope for any additional help along the lines of a phase down in the lead standard in Canada, much as we've seen in the Midwest? Has that been set into action yet?

Beaufort?

Mr. Haynes: Norman Wells is just about 60 percent of the way from Alberta to the Beaufort Sea, 540 miles, so the rest of the way would be less than 400 miles.

Mr. Textor: So it cost you $350-400 million to build roughly 60 percent of the way up there.

Mr. Haynes: Yes. At $27-$28 oil we could see some justification for extension of the Normal Wells line. If that line gets 25,000 barrels a day from Norman Wells itself, you could almost double its output with a little added pumping capacity, and we could see some economics in about 25,000 barrel/day added production out of the Beaufort Sea, provided we could get our reserves up to about 300 million barrels. Our intent was to stand back after the end of this drilling season and see where we stood on this, because we're into that phase of our drilling program that's really the part that will determine whether or not we'll have reserves of some significance.

Mr. Textor: You're referring to the activity at Tuk?

Mr. Haynes: Yes. Of course, with the current price outlook, it's changed that whole scene. I can tell you, the way we see it now I think we'll finish this year's drilling program, and then sit and wait. We might do some delineation drilling. The real problem we're having, and that everybody else in this industry will have, is not just where the price will be; it's how long it will be there. I personally increasingly feel that it will be soft for some time. When I say soft, I mean anywhere between $20 and $27. There won't be any real growth in the price of crude oil beyond that range for at least six or seven years.

Mr. Textor: When you look back in a strategic sense, if **Gulf** has a major discovery that turns into a commercial standalone project, then **Imperial** essentially becomes a winner. If the Gulf discovery is commercial, given the fact that the line will be a common carrier, Gulf's success essentially makes your discoveries commercial.

Mr. Haynes: No question about it. Because it makes economic a lot of fields that today are small contributors, but on an incremental basis they would make a lot of sense.

Mr. Textor: So the dozen or so discoveries that you've made up there today would be commercial?

Mr. Haynes: We're pulling for Gulf to have a big discovery, make no mistake about it.

Mr. Haynes: We're pulling for Gulf to have a big discovery, make no mistake about it.

TWST: Bill Magee?

Mr. Magee: Shifting from the upstream to the downstream, what is your outlook for downstream margins given (a) the lower price situation and (b) Gulf Canada's shutdown of its Montreal refinery?

Mr. Haynes: For those two reasons there's a good chance margins will be impacted favorably. However, there's a rule of thumb that says when crude markets are sloppy, the downstream is sloppy. And if you couple that together with what's happened in energy conservation, the tremendous capacity overhang that still exists, and the fact that it's a silly industry that seems to price against the incremental barrel, it will take all the improvement that tightening the balances give. But as long as there's very much spare around, I'm not too optimistic we'll see returns that are really commensurate with the amount of capital invested in that part of the business. I've become a lot harder in my outlook toward the downstream,and until this past year, we've really not faced up to the downstream problems in our company. The reality is that there won't be a resumpiton in demand growth; there will be a real problem, not just in our company but the whole industry, of cost containment;and that is what we're looking at right now, frankly, is a reassessment of how we're approaching the downstream business. To put it another way, if we didn't have the organization in place today and were establishing one from square one, I think it would look different than the one we have in place today.

TWST: In what way?

Mr. Textor: A much leaner organization: it would look different geographically, it would look different regionally, the structure of management would look different, the markets we're involved in would be more selective -- we wouldn't be quite as broadly based. I think there's a real opportunity for us now to do some reordering and substantially improve our downstream business through cost containment. If we can do that better than anybody else, then any pressure that moves margins up will certainly come to us in full measure. You'll be hearing some news about this in three or four months -- I don't want to say any more about it. But we really have to take a more fundamental look at that business.

TWST: Bill Magee, did you want to follow on?

Mr. Magee: Let's assume, going along with your thesis that

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TWST: Bill Magee, did you want to follow on?

Mr. Magee: Let's assume, going along with your thesis that things won't improve for a while -- certainly this poker game, and we could liken it to that, will not be resolved shortly. So, if we take the U.S. $20 price scenario over the next, say, two years, to what extent will **Imperial's** spending be trimmed, if any? You indicated earlier you were prioritizing. Would you just quantify that a little?

Mr. Haynes: We've just done some very simple arithmetic on this. In the year 1986, for example, if we were to cut our capital expenditure by 25 percent, we'd probably end up with a stronger cash balance than we currently have in the forecast, which says we probably wouldn't cut it by 25 percent. The greater concern to me is 1987, because in 1986 we get some benefit from the working capital reduction which, because of lower values of products, crude and accounts receivable, saves cash. The impact of $20 oil in 1987 is much more severe than in 1986. So the second year of your two-year scenario, Bill, will give me a much bigger problem than the first year.

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Mr. Haynes: It will track the U.S. regulations, but somewhat delayed in time. But the industry will require facilities. We have plans to build new facilities. We're in relatively good shape as regards industry octane requirements, so it's not an issue that I consider to be a major factor.

Mr. Randol: Getting back to world pricing. What if, God forbid, the price slips say to the middle teens and stays there for two or three years -- what policy initiatives if any would you expect the Canadian government to come out with? In this country, for example, there's talk about import tariff to protect both the domestic industry and the financing banks. What would **Imperial's** reaction be, in terms of spending and production to say $15 oil for a sustained period of time? Are there pockets of production that would shut down and be uneconomic at that level?

Mr. Haynes: Yes, there sure would be. The first one that would shut down is likely Syncrude. At $15, you're into a pretty drastic situation. The rule of thumb is that about $1 a barrel means about $40 million to **Imperial Oil** aftertax. So you take, in addition to what's happened to get us down to $20 crude, another $200 million aftertax out of a P&L at $15 crude, and we don't have a hell of a lot left. At that point we may be very glad we have the downstream again.

Mr. Randol: The $1 per barrel -- is that $1 U.S.?

Mr. Haynes: Yes.

Mr. Randol: There's a question of policy initiative, if any, by the Canadian...

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Mr. Haynes: I hesitate to get into this area, because if I were to ggest anything along the lines of what you say has happened in e past in the U.S. in public, I could be accused of trying to essure the government into something without consultation. ut I think there are a number of measures open to the govern-ent. One obviously is that they can take a look at P.G.R.T. and cilities. But whatever they do in that respect flies in the face of eir huge deficit. Governments have already taken the major runt of all the oil price decrease. They take about 85 percent of l the upside and the downside. So their revenues are getting obbered, worse than ours are. And for them to do more will give em a tremendous amount of difficulty. Just think of the past roblems at Alberta, where it has to be 50 percent of the provin-ial revenue.

Mr. Randol: What about an import tariff? Is that a viable ption?

Mr. Haynes: It's certainly an option. I don't know if it's a iable option for the government.

Mr. Textor: Given **Imperial's** history of good cash flow and eople expertise, why has the company been so dormant in West-ern Canada? Because of the poor economics we're looking at, or is t because of the poor landspread?

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Mr. Haynes: We've found that you can't solve an exploration problem by just throwing money at it. You need to build a cadre of people who specialize in that particular geology, they get a lot of creative ideas. Then, as you test some of these ideas and they're successful, you can expand into the opportunities you see ahead.

What's happened in Western Canada is the oil that's being discovered today is from a different kind of geological sequence than brought on Leduc, so you had those large, very high oil bearing structures. Where the smaller companies were so successful in the last ten years, was in identifying some of these riverbed sands that were deposits which were actually laid down through the flooding and raising of the Western Basin. When we first went back to the Western Basin in 1978 we didn't have any experienced people. In 1971, we had made the decision that any economic crude we'd find would likely be found on the frontiers, and we didn't anticipate, nor did anybody else, that the Arabs would run the price up. All of a sudden, by mid-'75, very small pools became economic. So we decided we'd get back in the Western Basin. Well, we did get back in th Western Basin, and we did pick up a big landspread, but we didn't have the ideas and the people to go with it. So, we formed what we called at that time the lower cretaceous task force, because a lot of the oil was being found in the lower cretaceous formations. We put together groups of young guys, and all they did was start doing fundamental geology, and regional mapping, to try to understand what some of these more subtle oil plays were.

We're now starting to reap the benefits of it. Last year, we discovered about 27 million barrels -- a relatively small amount of oil, but highly profitable. So we've now redoubled the explora-

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TWST: Bill Magee?

Mr. Magee: Just going a little further afield, as we got back to the Western Basin, **Imperial** is not noted for its gas production, but it's not insignificant as a producer, either. Probably the most complicated thing that I'm having trouble with analytically is putting a price on natural gas back at the field -- not so much this year, but starting in November '86, and looking out a full year into 1987. Would you take a shot at it? If we assume that we stay in this sort of \$20-ish U. S. area, or \$30 Canadian crude price-- what sort of price do you see getting back on your gas in Alberta? Particularly looking at it in '87, after deregulation.

Mr. Haynes: At a time like this, Bill, I'm awfully delighted

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PANELISTS:

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TWST CEO FORUM: IMPERIAL OIL

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that we're a net buyer of gas. Soon we'll be knocking on a lot of doors and asking for revision of some of the contracts we have. I can't really help you much. The net prices obviously will be severely impacted by what producers can get in the export market, and I don't think it's realistic to keep large spreads between contract and spot sales. I see natural gas being somewhat more soft perhaps than we anticipated it would be. I think that's rather unfortunate, because there are a lot of small gas producers that will be impacted by this.

TWST: Arden, within the year of your taking over Imperial all this happens in the price field. And you say pricing may be soft or mushy for a few years. What are some of the cost containment options, as you see it, for saving or improving margin?

Mr. Hayes: I think the major one is people. It will be a revisiting of the principles we followed to cope with the effects of the National Energy Policy introduced in October 1980. Most important perhaps will be the reordering of our structure, how we get up to the plate in the downstream. But it's not just in petroleum products. The same thing is true in chemicals. Chemicals, at least in the plastic business, is blessed with some growth that underpins that market. On the supply side, it's bad, or worse than petroleum products. So, I can't see any significant opportunities there for margin improvement and, therefore, cost containment becomes a major requirement. We'll be doing the same thing there on petroleum products. I think we'll be looking from the marketplace back, and I think we'll probably be doing some high-grading. There's a large part of the barrel that gets sold at very little over incremental cost, and that tends to recycle back into the marketplace and undermine the whole market. We'll be looking at the wisdom of participating as widely as we are in the market. So, a combination of high-grading, selectivity and organization changes.

From a hardware point of view, of course we've done the number on Montreal Refinery, and that's behind us. Sarnic is a matter of concern to me, because it's a big refinery. It's very complex. While I can't see ever shutting that refinery down, may be some reordering of what we're doing there will make a lot of sense and save us some money.

I don't think, frankly, that there's been such a fundamental look at our business in the downstream for many, many years as the one we're now involved in. I'm facing this with some pain because I know that parts of it won't be easy to do, and there will be very tough decisions. But I think after we do what has to be

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Mr. Leuffer: If oil should stay in the high teens, for discussion sake...

Mr. Haynes: God, all of you guys are pessimistic today.

Mr. Leuffer:...I think that it might be safe to say that, at least on a relative basis, the strong will get stronger and the weak will get weaker. In one sense this might provide an opportunuty for those companies that are cash rich and will have borrowing at power. Do you see acquisitions fitting into that strategy? If so, what sort of parameters would you be looking at?

Mr. Haynes: You're very perceptive, because of course that's the other side of the coin. You can certainly paint a scenario that says that local crude prices will have a favorable impact on interest rates, but a very devastating affect on the asset value companies that are oil and gas producers. That may very well present us with an acquisition opportunity. I guess, Fred, there's one thing that you ought to know about me. I'm absolutely committed to grow the company, and we'll find a way to make it grow. I've never thrown away the notion of acquisitions, and I've always been very conscious of our debt capacity. I've always been very happy and conscious of the assistance available to us through our major shareholder, and I can tell you there will be no resistance there if a good acquisition opportunity comes along. I think also that politically it is probably more favorable right now to move in that direction than it's been for many, many years.

Having said all that, you've got to be prudent in today's environment. There's no way I'll bet the company on anything. I can

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Having said all that, you've got to be prudent in today's environment. There's no way I'll bet the company on anything. I can tell you right now that anything that comes along will be carefully considered. Obviously what's best for the shareholders will be the predominant criteria. But I wouldn't rule out anything. You've made me talk a lot more about this than I intended to.

Mr. Randol: What percent of **Imperial's** total earnings come from chemicals?

Mr. Haynes: It's meaningfully low. Bill, the problem that you have with our chemicals is that there's really two distinct pieces. There is the agricultural chemical complex at Redwater and distribution plants throughout Western Canada. Also, we're in the plastics, the olefins and polyvinylchloride businesses with a large new plant in Sarnia. I lump all that together and call it plastics.

The agricultural chemicals business won't be a barn-burner, but it will be an adequate business. The reason why it won't be astounding is because it's so cyclical. A good portion of our plant capacity (and you have to build large plants to get any economics out of them) is devoted to the export market, which is suspect to sudden change. The Indians and the Chinese, for example, are very, very clever about how they buy. They'll buy aggressively in one year, and they'll whipside you the next year. The damn business goes like this all the time. If you could draw a line through the middle of the ups and downs, you get what I call an adequate business. It will have very good years, and it will have soft years, but on average it will be all right. So, I set that business to one side and say that I can live with that. It probably has more upside than downside, and we have an extremely good plant. It's probably the best fertilizer plant in the world. It's really a super plant. So, we can live with that.

On the plastic side of the business we've got a large polyethylene plant that's new. In fact, we're still learning how to run it. I've found that despite all the experience in the world in those things, you have to start almost from square one. But we're making progress in learning how to run it. But even if we can run it and fill it up, we won't be able to make any money at is for some

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I'm starting to feel a bit more comfortable that we can run the chemical plant at a breakeven basis so that it won't be a drain on cash. But I'm not at all satisfied with our chemical organization right now. It just can't support the cost structure. You just can't support it. On PVC, we make money one month, than don't make money the next month. We're all alone in that business. Exxon isn't in that business at all. We have no technological support, and the question I ask is, "Why are we in that business?" It's not doing anything for the shareholder and the prospects for much improvement are not very great. So, in chemicals, the plastic side is under the microscope right now.

Mr. Randol: As users of petroleum as a feed stock, is it possible that either of these two businesses could benefit from lower oil prices in terms of stimulating demand?

Mr. Haynes: They could. You can argue that lower petroleum prices could improve demand, it takes a long time to work through the system, the marketplace, and the industrial sectors. Another thing that is happening right now is that people who want to get out of the business are selling these plants to merchant companies who are operating them on a shoestring, and they're prepared to run them as long as their cash flow is positive. How much of that can the market take?

I'm a great risk taker, but I like to see the odds better. I'm not so sure that's a business that really has long term prospects; at least it might be profitable in the really long term. I think there are

other ways that I'd like to serve the future of this corporation.

Mr. Textor: For Imperial to continue to increase its long-term oil production, at some point in time you will have to expand Cold Lake past the first ten phases. I think that necessitates the construction of an upgrader, when will you make a decision on an upgrader? What prices do you need? Cold Lake alone looks great, as you said, even at $20 U.S. Cold Lake plus the upgrading is a different set of economics. Could you expand a little bit on that?

Mr. Haynes: That's a good question. I would say that we don't have more than two years to address the question of the upgrader at Cold Lake.

Mr. Textor: So you would have to make a decision on the upgrader within two years?

Mr. Haynes: It takes about two or three years to build the darn thing. You wouldn't want to take that last step of getting into detailed engineering unless you are fairly sure that you will proceed. We'll probably carry on with our engineering program to the point where we can accelerate the program very quickly, if things look like they will turn around for us. But we will not make that decision until we have to. We will probably go right to the final step of doing all the detailed engineering before we feel comfortable that we want to spend a lot of money on it.

Let's go back to where we were on the "Megaproject," for example. We spent $120 million on engineering and then cancelled the project. Now, Cold Lake engineering won't be quite that much, but there's a lot of things we can do usefully while we're waiting to see what happens to the price of crude oil, so that if, as and when it does look better, we can move quickly.

Mr. Textor: So, the decision would be made somewhere around '88.

Mr. Haynes: I'd say in the late 80's. Yes.

Mr. Textor: In rough terms, what do you think the cost of an upgrader would be? Are you thinking about an add-on unit to the Strathcona refinery or a stand-alone upgrader?

Mr. Haynes: Well, our preference for the first 30,000-40,000 barrels a day would be at Strathcona because we would have the advantage of sharing utilities and some of the infrastructure. That's the most economic increment of expansion of Cold Lake for us. We've done some engineering with groups within the industry, all of whom have interest in the Cold Lake area, and hopefully we'll see an industry upgrader there. So '88 is still a

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Mr. Textor: You mean both units, the Strathcona addition, plus a new industry upgrader?

Mr. Haynes: They won't be far apart.

Mr. Magee: Gulf Canada has said in their proxy material and so forth that they want to reduce their purchase cost and might want to sell part of the Beaufort discovery just to get their risk in line. Is that something that would fit into your long range plans?

Mr. Haynes: Sure, we would look at it. Absolutely. The situation we like to see is that somebody needs us. If they don't need us, obviously they won't want us, but the more we're needed, the more probability we have to cut a deal that gives us a little bit more than the cost of capital. But it's not a question of not wanting to be in. It will end up being a question of if they want us and at what cost.

Mr. Magee: Again, on acquisitions -- I've heard that you have a fairly active group acquiring gas reserves in Alberta.

Mr. Haynes: I think the task force has pretty well done its work. I think we called on 125 different small to medium sized gas companies, producers and so on. The purpose of that exercise was to purchase gas for internal consumption. As you know, we have a high internal demand at Redwater and at Cold Lake for fuel. We're net buyers of gas and I think that we'll probably continue to pursue acquisitions, but they're not that plentiful. If you hear of anybody that wants to sell some gas production, give us a call.

Mr. Magee: They're may be more next week than there were last week.

Mr. Haynes: Maybe the price will be different too.

Mr. Leuffer: An overhang of the system of regulated oil prices in Canada was that some Western crude was a shut-in. Has that been resolved to any extent? Is any of your production shut in

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right now?

Mr. Haynes: It's so variable. At one time, some production was shut-in because of pipeline capacity limitations, but I don't think fundamentally it will be much of a continuing long-term problem.

Mr. Leuffer: If the Canadian pricing system is caught up with the U.S. system it would be competitive and allow spot purchases of crude to move across the border.

Mr. Haynes: I think the most significant answer that I should give you there, Fred, is that they have (through a couple of companies) created a clearing mechanism that enables people who have spare producing capacity to sell direct to refiners in the States. So we're not totally dependent upon domestic nominations anymore.

TWST: Arden, you've said you're determined to have the company grow. Is it not true that the acquisitions that you might make, gas leases, etc., will really set future long term growth? You will get the benefits of that somewhere down the road. But, what do you see that you might be doing to create shorter term growth that will impact bottom line, let's say, in the next two to three years?

Mr. Haynes: Well, I think the likelihood is that any acquisition would probably help our near-term earnings much more than longer-term prospects. Not very many companies have anything near the kind of reserve of opportunities that we have in heavy oil, for example. Those that do have long-term opportunities are the ones engaged in, say, Hibernia or some of these rather costly, shall we say, future development prospects. I think the jury is still out on economics and the timing of those kind of prospects. But I guess one can't be too greedy. If we do make an acquisition, we would try to effect as much balance as we can. We would want to pick up enough earnings so that we don't dilute our shareholders value and change our earnings per share profile. We obviously would be looking very carefully at long-term opportunities as well. It would be nice to have a balance there.

Mr. Randol: This may be a little off the wall, but does **Imperial** or its major shareholder (Exxon) contemplate any change in relationship or ownership? Do you have any plans for a stock offering in which Exxon would not participate, or would not participate proportionately?

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Mr. Randol: Nothing's changed.

Mr. Haynes: No. Bill, I think that the comment is often made that Exxon would dearly love to have all of **Imperial**, but I think they recognize that politically it would be a terrible mistake. They're not about to do that.

Mr. Randol: Is it possible that Exxon might make some sort of Canadian acquisition on its own -- not through **Imperial**?

Mr. Haynes: Well, I guess it is possible. But I would be disappointed if they did it that way.

Mr. Textor: Just one final question on Cold Lake. You've got this big expansion--does this create opportunities to sell additional natural gas? You, unlike other companies, have a great internal use for gas. I understand the economics are particularly attractive because of Alberta's regulations--you don't have to pay a royalty on gas that you produce and use for heavy oil projects. My questions are: a) is **Imperial** operating under different economics because of the royalty regulations and (b) do you have a market opportunity others do not because of Cold Lake?

Mr. Haynes: You're absolutely right. We can afford to pay more for gas, because of the fact that when we use it as a fuel it's royalty free. So, to that extent, we are a desirable purchaser, but there is a limit to how much we can buy. Because obviously there's a limit to what we need. Also, we have our own gas production at Cold Lake.

Mr. Textor: Are you actively exploring for gas, in Western Canada, let's say, because you have a captive market that other players don't?

Mr. Haynes: We are not turning away good gas exploration opportunites, but I've got to say that our exploration task force has been concentrating on oil in the past. But we are exploring for gas and we've got exploration programs for gas too.

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Mr. Magee: Just following up on a technical point on Don Textor's question. BP at Wolfe Lake and yourselves at Cold

(Continued on Page 80,966)

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TWST: Well, what about labor?

Mr. Darragh: Labor doesn't seem to be a problem in thi industry. It's primarily a non-unionized industry and not pron to strikes.

TWST: John, thank you very much for filling us in.

TWST CEO FORUM: IMPERIAL OIL

(Continued from Page 80,965)

Lake don't pay royalties on gas you produce and use at these projects. What about the royalty system when you purchase gas from someone else at a higher price?

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Mr. Magee: Okay, so you're acquiring reserves and at whatever you pay when you produce the gas, you don't pay the royalty.

Mr. Haynes: We're not contracting for gas. We're actually acquiring production.

Mr. Magee: Okay, that's just the fine difference that I was missing on the thing. Just one more question. Your parent has a very well known and very successful share buyback going on. Relatively speaking, **Imperial** has a few more growth opportunities to spend its money on. But, if you go into this hiatus of doing engineering work, while you're waiting for the price of oil to rise, rather than actually spending money on major projects, is it conceivable that shareholders can look forward to that sort of buyback situation?

Mr. Havnes: Well, Bill, it's conceivable. There are a number of options. We can invest our cash capacity or we can buy back shares, which frankly I'd like to do at some point. We can retire some of the high-cost debt we have out there, especially if we see some strong prospects for interest rate declines. And we have already mentioned acquisitions. I mean, there are several things on the list.

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Mr. Leuffer: In the past, Arden, you've talked about potential recovery for the Cold Lake project in the neighborhood of 20 to 50 percent. **Imperial** has done extensive work and made some pretty good technological breakthroughs on horizontal and other drilling techniques. Are you any further along in narrowing your projections down? Might there be more Cold Lake recovery than we originally were looking for? Do your projections lean to the 50 percent or the 20 percent estimate?

Mr. Haynes: Well, we're still using 20 percent in our economics, Fred. I think I might have said the last time I was here that I'm absolutely persuaded we'll get more out of the formation than 20 percent. But I can't say at this time that I think there's a lot of different recovery methods being tested. The horizontal well is one. Naptha injections is another. There are several things we are working to improve the recovery rate. Those guys are too smart not to find a way of getting it above 20 percent, I'm sure of that.

Mr. Randol: If you went to the 20 percent basis, what would that mean in terms of volume growth? Each phase is 9,500 barrels per day, and they come in pairs of two. Relative to **Imperial's** current liquids production in Canada, what percentage increase are we talking about between now and 1990? Or would it be the early 90's by the time you got up to 20 phases?

Mr. Haynes: Oh, we would never be there by the early 90s.

Mr. French: Our total production of crude oil in 1985 was 176,000 barrels per day. We would be in the neighborhood of … about 200,000 from Cold Lake,

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Mr. French: Our total production of crude oil in 1985 was 176,000 barrels per day. We would be in the neighborhood of 300,000 if we have 20 phases; about 200,000 from Cold Lake, 45,000 or thereabouts from Syncrude, depending on expansion and the balance from conventional crude oil, is essentially flat compared to today. Enhanced oil recovery allows us to maintain our level of conventional product. So you're talking double the '84 number.

Mr. Haynes: The speed at which we can put in Cold Lake will depend, at some point -- certainly in 1992 or 1993 -- on their ability to upgrade the crude. You know, the upgrading investment (if we could see some stability at a higher price of oil) looks pretty good when it's supported by a production system like that.

Mr. French: Don asked about the economic side a while ago, and perhaps you might just describe the difference between the economics we would look at for an upgrader versus the Husky economics today, where they are looking at the price increment between light and heavy crude oil.

Mr. Haynes: I don't know how they're looking at it now, frankly. The upgrader by itself doesn't make any sense. We can't get any economics from the upgrader alone. You're talking at

(Continued on Page 80,968)

TWST CEO FORUM: IMPERIAL OIL

(Continued from Page 80,966)

best as 12 percent return for an standalone upgrader, and that's really pretty optimistic. The only reason we'd ever put in an upgrader is because we need it to produce the oil.

Mr. Textor: A final question on conventional production-- you've got a large resource base of the old Leduc/Beaver Hill Lake type fields. How many barrels could be recovered from miscible flood projects such as those at Judy Creek, Redwater, and any others?

Mr. Haynes: Well, we've got five projects that we are working on now. They are much smaller than Judy Creek.

Mr. Textor: What are the numbers for Judy Creek?

Mr. Haynes: We added about 60 million barrels, something like that, to our reserves. But the other ones, like Mitsue and Goose River -- there are a lot of partnerships in some of the other fields we're working on. Redwater may be a major opportunity. We're still pilot testing there. It could be something substantial. Though not as big as Judy Creek, it could be significant. But we've really cracked the heart of it with Judy Creek. That was a big, big opportunity.

Mr. Textor: So really your two big miscible flood opportunities are Judy Creek and Redwater.

Mr. Haynes: Yes, I would say that with all the rest combined, we'll be lucky if we equal Judy Creek.

TWST: You spend 24 hours a day, seven days a week on Imperial. The financial professionals have to follow Imperial as well as other companies at the same time. Since you understand it much better from your side of the desk, and you've interacted with many financial professionals, what are one or two areas where you feel you might improve the understanding about Imperial?

Mr. Haynes: I was somewhat amazed that it took the investment community a long time to understand the significance of Cold Lake. It may take the investment community a long time also to understand the significance of the Syncrude expansion,

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Mr. Textor: So really your two big miscible flood opportunities are Judy Creek and Redwater.

Mr. Haynes: Yes, I would say that with all the rest combined, we'll be lucky if we equal Judy Creek.

TWST: You spend 24 hours a day, seven days a week on Imperial. The financial professionals have to follow Imperial as well as other companies at the same time. Since you understand it much better from your side of the desk, and you've interacted with many financial professionals, what are one or two areas where you feel you might improve the understanding about Imperial?

Mr. Haynes: I was somewhat amazed that it took the investment community a long time to understand the significance of Cold Lake. It may take the investment community a long time also to understand the significance of the Syncrude expansion, the other six leases that we hold in partnership with others, and some of the other resources. I think our heavy oil resources represent clearly, for our company, a very unique mix -- very unique in Canada and probably in the United States too, for that matter. I think in what I've read recently however, (and maybe this is largely a result of Lorne's good work), about **Imperial** by investment analysts, I've thought they've got it just about right. Perhaps I have shed a little bit more light today on some of the things we're looking at in the downstream which I think will make a positive contribution to the company's earnings. I think there is a mindset change there that's taken place, is taking place, and that will help us. I guess that's the only thing I can say here that can help any further.

The overwhelming issue right now, of course, is the price of crude oil. That dominates everything and we'll be preoccupied with that for some time. I'll be preoccupied with the downstream restructuring because I don't want the downstream people to be overly preoccupied with anything but the major task they have. They've got their marching orders and they'll do a hell of a job. But I'll be preoccupied with that because I have to manage it. It's the top of the company that has to manage those kind of decisions and so we are fussing over that right now.

TWST: Thank you very much.

TWST NAMES – ADVERTISING

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brunt of all the oil price decrease... all the upside and the downside. So their revenues are getting clobbered, worse than ours are. And for them to do more will give them a tremendous amount of difficulty. Just think of the past problems at Alberta, where it has to be 50 percent of the provincial revenue.

Mr. Randol: What about an import tariff? Is that a viable option?

Mr. Haynes: It's certainly an option. I don't know if it's a viable option for the government.

Mr. Textor: Given **Imperial's** history of good cash flow and people expertise, why has the company been so dormant in Western Canada? Because of the poor economics we're looking at, or is it because of the poor landspread?

Mr. Haynes: We've found that you can't solve an exploration problem by just throwing money at it. You need to build a cadre of people who specialize in that particular geology, they get a lot of creative ideas. Then, as you test some of these ideas and they're successful, you can expand into the opportunities you see ahead.

What's happened in Western Canada is the oil that's being discovered today is from a different kind of geological sequence than brought on Leduc, so you had those large, very high oil bearing structures. Where the smaller companies were so successful in the last ten years, was in identifying some of these riverbed sands that were deposits which were actually laid down through the flooding and raising of the Western Basin. When we first went back to the Western Basin in 1978 we didn't have any experienced people. In 1971, we had made the decision that any economic crude we'd find would likely be found on the frontiers, and we didn't anticipate, nor did anybody else, that the Arabs would run the price up. All of a sudden, by mid-'75, very small pools became economic. So we decided we'd get back in the Western Basin. Well, we did get back in th Western Basin, and we did pick up a big landspread, but we didn't have the ideas and the people to go with it. So, we formed what we called at that time the lower cretaceous task force, because a lot of the oil was being found in the lower cretaceous formations. We put together groups of young guys, and all they did was start doing fundamental geology, and regional mapping, to try to understand what some of these more subtle oil plays were.

We're now starting to reap the benefits of it. Last year, we discovered about 27 million barrels -- a relatively small amount of oil, but highly profitable. So we've now redoubled the exploration play in Alberta this year, with the resulting widened margins in the Western Accord. We had an idea bank to a point where we were prepared to be somewhat more aggressive than we had been before. But that's the reason: we didn't have the prospects to chase. It wasn't that we lacked the money or anything else; we just didn't have the ideas or the prospects. It's been a catchup phenomenon.

TWST: Bill Magee?

Mr. Magee: Just going a little further afield, as we got back to the Western Basin, **Imperial** is not noted for its gas production, but it's not insignificant as a producer, either. Probably the most complicated thing that I'm having trouble with analytically is putting a price on natural gas back at the field -- not so much this year, but starting in November '86, and looking out a full year into 1987. Would you take a shot at it? If we assume that we stay in this sort of $20-ish U. S. area, or $30 Canadian crude price-- what sort of price do you see getting back on your gas in Alberta? Particularly looking at it in '87, after deregulation.

Mr. Haynes: At a time like this, Bill, I'm awfully delighted

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GUEST CHIEF EXECUTIVE OFFICER

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